

Indirect Cost Recovery

Using Federal Funds to Recover “Indirect Costs”

**Federal Funding Conference
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PUBLIC INSTRUCTION
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The “Cost” of Doing Business

Direct Costs

- ❖ Federal grants fund specific and limited activities related to meeting the goals of the project.

Indirect Costs

- ❖ Grant activities generate operational costs such as supervision and payroll, but are not directly related to conducting the grant activities.

Definitions

Direct Costs

Those costs that can be specifically identified with a particular final cost objective (a particular project).

Indirect costs

Those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective (overhead, G & A).

Recovering Funds for Indirect Costs

Indirect Cost Recovery

Acknowledgement by the Federal government that federally funded programs incur more than just costs directly related to the project.

- ❖ Sub-recipient must have an established indirect rate.
- ❖ This rate / percentage can be applied against the federal grant to recover funds to offset its operating costs.
- ❖ Outlined in the Uniform Grant Guidance (2 CFR §200.414)

Important Definition

Indirect cost rate

A device for determining in a reasonable manner the proportion of indirect costs each program should bear.

- ❖ It is a method for allocating indirect costs to projects.
- ❖ The ratio between indirect costs (pool) and an equitable base.

Typical Types of Direct Costs

- ❖ Teacher salary /benefits
- ❖ Professional development
- ❖ Equipment
- ❖ Transportation
- ❖ Instructional materials
- ❖ Contracted services

General Management is Split

Direct Costs

Limited to one school, subject or phase of operation, including the supervision of

- ❖ Instruction
- ❖ Guidance
- ❖ Attendance
- ❖ Transportation
- ❖ Student Services

Indirect Costs

Benefits several activities and programs, including the performance of

- ❖ Accounting / Payroll
- ❖ Auditing
- ❖ Personnel Management
- ❖ Purchasing
- ❖ Employee Relations

General Management

Superintendent Costs

Not allowed as a direct cost on federal grants or recovered through indirect.

- ❖ Salary / benefits or any expenditures related to the operation of the Superintendent's office.

School Principal Costs

May be allowed as a direct cost on federal grants but is always included as a direct cost in the restricted indirect rate calculation.

Direct or Indirect?

Can you determine actual costs generated by the program?

Certain indirect costs may be categorized as direct costs depending on how they are tracked:

- ❖ Bookkeeper
- ❖ IT Staff
- ❖ General supplies
- ❖ Copying / Printing
- ❖ Postage
- ❖ Phone

Not included in Indirect Cost Recovery

Uniform Grant Guidance, Unallowable Activities:

- ❖ Organized fund raising
- ❖ Lobbying
- ❖ Lawsuits against the government
- ❖ Bad debts
- ❖ Contributions and donations
- ❖ Fines and penalties
- ❖ Entertainment
- ❖ Equipment and other capital expenditures

Establishing an Indirect Rate

Two rates determined annually by DPI

- ❖ DPI's Indirect Cost Plan
- ❖ “Restricted” and “Unrestricted” rates
- ❖ Based on audited financial data collected from the PI-1505 annual reports

Department of Ed – Restricted Rates (lower)

- ❖ Used for federal grants that have a supplement not supplant provision (34 CFR §76.563)

Restricted vs Unrestricted

Why the distinction?

- ❖ Certain Department of Education grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds.
- ❖ Supplanting? Ambiguous concept that does not allow the use of federal funds to 'replace' otherwise local funds for certain expenditures.
 - ❖ Very difficult to prove this quantifiably

Restricted vs Unrestricted

Restricted rate is calculated by taking the unrestricted rate and modifying it so as to exclude certain maintenance and operation expenditures.

- ❖ Both rates are calculated by DPI.
- ❖ Most grants only allow restricted rate to be used due to non-supplanting regulations.

Indirect Cost Proposal

Formal plan and methodology for calculating rates on a consistent basis:

- ❖ Organizational review
- ❖ Tying costs to functions
- ❖ Submission of plan to Cognizant Agency
- ❖ Federal Review
- ❖ Negotiation
- ❖ Issuance of Rate Agreement

Indirect Cost Proposal

What does this mean for Wisconsin schools?

- ❖ DPI establishes Indirect Cost Rate (ICR) plan for all districts.
- ❖ DPI negotiates with the Department of Education.
- ❖ Every 5 years the plan is resubmitted and new agreement is reached.
- ❖ Available on the DPI website.

Types of Rates

- ❖ Provisional/Final
- ❖ Predetermined
- ❖ Fixed-Rate with Carry-forward**
- ❖ Temporary 'billing' rate

** Used by Wisconsin school districts

Fixed Rate with Carry-Forward Provision?

The predetermined rate is an ICR applicable to a specified year (current fiscal year) based upon an ESTIMATE of current year costs.

Fixed Rate with Carry-Forward ICR is the same as a predetermined rate except the differences between actual and estimated costs are 'carried forward' and become part of the rate calculation currently.

Establishing an Indirect Rate

Current year's rate is based on the second preceding fiscal year's audited financial data.

Restricted Indirect Rate Calculation:

FY 2016-17
Total Allowed
Indirect Costs
\$50,000



FY 2016-17
Total
Direct Cost Base
\$800,000



FY 2018-19
Restricted Indirect
Rate:
6.25%

Establishing an indirect rate

*Costs that are considered **indirect** for the purpose of determining the restricted indirect rate*

**FY 2016-17
Total Allowed
Indirect Costs
\$50,000**

Fund 10

251 000 Direction of Business

252 000 Fiscal

259 000 Other Business Administration

260 000 Central Services

These functions include business operations, financial and property accounting, payroll, inventory control, information technology services.

**** NOTE** – Restricted indirect rate calculation does not include utility costs.

Establishing an indirect rate

*Costs that are considered **direct** for the purpose of determining the restricted indirect rate*

FY 2016-17
Direct
Cost Base
\$800,000

Fund 10, 20, 50, 72, 80, 90

100 000 Instruction
210 000 Support Services (SS) - Pupil
220 000 SS - Instructional Staff
230 000 SS - General Administration
240 000 SS - School Bldg Admin
255 000 SS - Facilities
256 000 SS - Transportation
258 000 SS - Internal Services
270 000 SS - Insurance
290 000 SS - Other Support
430 000 SS - General Tuition Payments

These functions include wages, benefits and other direct costs
BUT the calculation excludes capital equipment purchases,
retirement and termination payments.

Calculations

DPI calculates rates for all districts

- ❖ For 2018-19, rates based upon audited 2016-17 Annual Report data.
- ❖ Carry-forward provision is determined.
- ❖ Form PI-1161 is submitted if adjustment to DPI calculations are requested.
- ❖ **May 31** is deadline for submitting adjustments.
- ❖ DPI notifies districts of adjusted rates and posts to website in **early July**.

Indirect rates for all districts (School Management Services)

<https://dpi.wi.gov/sms/fedaids/indirect-costs>

Indirect Cost Rates

- [Indirect Cost Rate Computation for School Districts \(printed June 2018\)](#) 

- [Indirect Cost Rates for 2018-2019](#) 

- [Indirect Cost Rates for 2013-2014](#) 

- [Indirect Cost Rates for 2017-2018](#) 

- [Indirect Cost Rates for 2016-2017](#) 

- [Indirect Cost Rates for 2015-2016](#) 

- [Indirect Cost Rates for 2014-2015](#) 

	<u>Restricted</u>	<u>Unrestricted</u>
<u>CESA/CCDEB/School District</u>	<u>Rate (%)</u>	<u>Rate (%)</u>
Abbotsford (0007)	4.76	18.81
Adams-Friendship Area (0014)	4.17	13.74
Albany (0063)	2.26	9.28
Algoma (0070)	5.34	14.13
Alma (0084)	2.93	14.97
Alma Center (0091)	3.92	14.71
Almond-Bancroft (0105)	3.24	13.54

Adjustments to Increase an Indirect Rate

Initial calculation pulls expenditures from high level functions, not detail

- ❖ Examples of what is included in 230 000:
 - ❖ 231 100 Board Members
 - ❖ 231 500 Legal
 - ❖ 231 700 Audit
 - ❖ 232 100 Office of the Superintendent
 - ❖ 232 900 Other District Administration

**Expenditures that
qualify as Indirect**

251 000	\$10,000
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252 000	\$10,000
---------	----------

259 000	\$10,000
---------	----------

260 000	\$10,000
---------	----------

**Expenditures that
qualify as Direct**

100 000	\$500,000
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256 000	\$100,000
---------	-----------

230 000	\$200,000
---------	-----------

258 000	\$100,000
---------	-----------

Function 230 000 includes audit costs (231 700) which are indirect costs. If they stay in the direct cost base, the indirect rate is lowered

\$40,000

÷

\$900,000

=

4.4%

Expenditures that qualify as Indirect

251 000	\$10,000
---------	----------

252 000	\$10,000
---------	----------

230 000	\$20,000
---------	---------------------

259 000	\$20,000
---------	----------

260 000	\$10,000
---------	----------

\$40,000

Expenditures that qualify as Direct

100 000	\$500,000
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256 000	\$100,000
---------	-----------

230 000	\$100,000
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258 000	\$100,000
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\$980,000

The LEA can request an adjustment, moving the audit costs (example \$20,000) from the direct cost base to the indirect cost pool

Adjustment resulted in a 2.4% increase



4.8%

Possible Adjustments

Legal Costs

- ❖ Preparation of policy, interpretation of laws and regulations

School Census Costs

Audit Costs

District Insurance

- ❖ Liability
- ❖ Property
- ❖ Fidelity bond premiums
- ❖ Worker's compensation

Unemployment compensation

Indirect Cost Rate Adjustment, PI-1161

https://dpi.wi.gov/sites/default/files/imce/sms/1161_Indirect_Cost_Form_2018.pdf

I. ACCOUNT ADJUSTMENTS (Optional)

Some General Funds costs can be considered both restricted and unrestricted indirect costs. Refer to detailed instructions in Local Educational Agency Indirect Cost Plan.

Account Code	Account Name	Indirect Restricted	Indirect Unrestricted	Direct Cost	Excluded Cost
10 - 231 700	Audit	\$ 20,000	\$20,000	(\$20,000)	\$0
27 - 252 000	Fiscal	(\$ 5,000)	(\$ 5,000)	\$ 5,000	\$0
Total Adjustments		\$ 15,000	\$15,000	(\$15,000)	\$0

**We have an
indirect
rate...now what
do we do with it?**

**How do we report
that our
bookkeeper is paid
with indirect
funds?**

**What function
is indirect?**

Why Claim Indirect?

Costs that are by nature indirect should be covered by the indirect cost recovery – no time & effort requirement and does not restrict what the individual works on.

Assists in reducing the amount of federal funds carried across fiscal years.

Provides the LEA relief for indirect costs that are generated by supporting the large federal programs.

Independent Charter School Applicability

Independent Charter Schools are considered LEAs and, therefore, are covered by the current approved WI Indirect Cost Plan with the Department of Education.

The 10% de minimis rate provision in the Uniform Grant Guidance does not apply.

Any Independent Charter Schools electing to utilize indirect cost recovery will need to contact DPI to calculate rates.

WISEgrants - IDEA Budget (FT, PS, CEIS)

[Submission](#) [Personnel](#) [Purchased Services](#) [Non-Capital Objects](#) [Capital Objects](#) [Insurance](#) [Other Objects](#) [Indirect](#) [View All Sections](#)

[Instructions](#)

Indirect Costs

Amount budgeted for Flow-through (excludes indirect):

\$4,128,662.00

Amount excluded from indirect calculation (capital objects):

\$0.00

Amount against which indirect costs may be calculated (base):

\$4,128,662.00

Restricted Indirect Rate:

6.62 %

Maximum Indirect Amount:

\$273,317.42

Amount available for indirect cost recovery:

\$273,317.42

Amount to budget for indirect cost recovery:

\$127,742.00

Effective Indirect Rate (indirect budgeted / base):

3.09 %

Indirect claimed to date:

\$57,090.00

Save

WISEgrants – Title I-A Application

Step 1: Title I-A Application Menu

“Plan Reservations: Enter Reservations Amounts”

Estimated Indirect Costs [Indirect Estimate Calculator](#)

To Estimated Indirect Cost Calculation - □ ×

Title I-A Allocation and Carryover	\$6,588,712.00
Restricted Indirect Rate	4.50 %
ESTIMATED maximum amount available for indirect costs for Title I-A	\$296,492.04

Buy

To

Claiming Indirect in WISEgrants

For claiming, subrecipients are able to control the amount of indirect requested each claim, up to the eligible amount generated.

Subrecipients also have the option of reversing an indirect amount previously claimed (and moving the claimed amount to another direct line item).

WISEgrants – Claiming Indirect Budgeted

Program Type	Account	Object Name	Function Name	Approved Budget Amount	Total Amount Claimed to Date	Obligations	Amount Requested this Claim	Amount Remaining	Cumulative Claimed to Date
Public School	27-943-158000-341	Pupil Dues/Fees	Combined Cost Reporting - Special Education	\$1,000.00	\$0.00	\$0.00	\$96.00	\$904.00	\$96.00
Private School	27-100-156600-341	Salaries	Speech/Language	\$63,947.00	\$0.00	\$0.00	\$35,980.30	\$27,966.70	\$35,980.30
Private School	27-100-158000-341	Salaries	Combined Cost Reporting - Special Education	\$54,248.00	\$0.00	\$0.00	\$24,411.60	\$29,836.40	\$24,411.60
Private School	27-200-156600-341	Employee Benefits	Speech/Language	\$23,200.00	\$0.00	\$0.00	\$9,966.79	\$13,233.21	\$9,966.79
Private School	27-200-158000-341	Employee Benefits	Combined Cost Reporting - Special Education	\$26,859.00	\$0.00	\$0.00	\$11,998.12	\$14,860.88	\$11,998.12
			Subtotal	\$4,124,346.00	\$506,043.86	\$0.00	\$1,337,201.04	\$2,281,101.10	\$1,843,244.90
None			Indirect	\$127,742.00	\$0.00	\$0.00	\$57,090.00	\$70,652.00	\$57,090.00
			Running Total	\$4,252,088.00	\$506,043.86	\$0.00	\$1,394,291.04	\$2,351,753.10	\$1,900,334.90

Restricted Indirect Rate: 6.62 %

Effective Indirect Rate: 3.10 %

Amount available to claim for indirect: \$57,090.21

Amount of indirect claimed to date: \$0.00

The claim amount requested for indirect cost recovery is hand-entered by the user, but cannot exceed the amount available.

View PI-1086

For Titles I, II, III, CEIS and Title I Schoolwide Set-Aside

Title I-A expenditures in Fund 10, Project 151

120 000
(100)

\$75,000

120 000
(200)

\$25,000

E: \$100,000

Title I-A revenue in Fund 10, Source 751

751

\$105,000

R: \$105,000

Coding Indirect Cost
Recovery in Fund 10

The \$5,000
difference between
grant expenditures &
revenue reflects the
indirect recovery

For IDEA Flow-through and Preschool

Coding Indirect Cost Recovery in Fund 27

Record Indirect Revenue Received from DPI

Fund	Type	Object / Source	Function	Debit	Credit
27	B		711 100	\$XX.XX	
27	R	730			\$XX.XX

Record Indirect Cost Transfer Between Funds

Fund	Type	Object / Source	Function	Project	Debit	Credit
27	E	810	418 000	34X	\$XX.XX	
27	B		711 100			\$XX.XX

10	B		711 100		\$XX.XX	
10	R	127	418 000			\$XX.XX

Charging Bookkeepers as a Direct Grant Cost

Allowed for some grants (such as IDEA) – if the individual keeps appropriate time and effort records.

BUT

If the LEA plans to claim indirect recovery, and the LEA charged a normally indirect cost as a direct cost on the grant in the year the indirect rate is based, the LEA is required to report an adjustment and subtract the amount of costs charged to the federal grant from the indirect cost pool.

Additional Technical Assistance

DPI Indirect Cost Information - <https://dpi.wi.gov/sms/fedaids/indirect-costs>

Using Federal Grant Funds to Recover 'Indirect Costs'

<http://bit.ly/recovering-indirect>

Recovering Indirect Costs Under:

IDEA: <http://bit.ly/idea-indirect>

Title I: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-I.pdf>

Title II: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-II.pdf>

Title III: <http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-III.pdf>

